

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Union City	County Calhoun/Branch
Audit Date March 31, 2005	Opinion Date July 8, 2005	Date Accountant Report Submitted to State: September 2, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

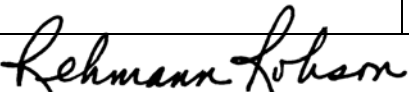
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

Village of Union City, Michigan

FINANCIAL STATEMENTS

**For The Fiscal Year Ended
March 31, 2005**



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF UNION CITY, MICHIGAN

For the Fiscal Year Ended March 31, 2005

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

July 8, 2005

Village Council
Village of Union City
Union City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **VILLAGE OF UNION CITY, MICHIGAN**, as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Union City, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV-C, the Village adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended March 31, 2005. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION and ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Union City's annual Financial Report presents the Management Discussion and Analysis ("MDA") of the Village's financial activities during the fiscal year ended March 31, 2005. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

Because the Village of Union City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Village's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Union City exceeded liabilities at March 31, 2005, by \$6,406,776. Of this amount \$2,054,835 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The net assets of the Village decreased by \$220,901 during the year. Of this amount the assets of governmental activities decreased \$12,248 and the assets of business-type activities decreased by \$208,635.

USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. MDA introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide Financial Statement ("GFS") consists of a Statement of Net Assets ("SNA") and a Statement of Activities ("SOA"). These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund Financial Statements ("FFS") tell how governmental services were financed in the short term as well as what remains for future spending. FFS also report the Village's operations in more detail than the GFS by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than MDA, provides information about the required budgetary comparison information.

REPORTING THE VILLAGE AS A WHOLE

The SNA, the SOA and the GFS report information about the Village as a whole using accounting methods similar to those used by private sector companies. The SNA includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the SOA regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better or worse off as a result of the year's activities? The SNA and the SOA report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the Village's net assets, which are the difference between assets and liabilities, as one way to measure the Village's financial

MANAGEMENT'S DISCUSSION AND ANALYSIS

health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

In the SNA and the SOA, we have divided the Village into two kinds of activities:

1. Governmental Activities - Most of the Village's basic services are reported here, such as police, fire, streets, parks, general government and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business-Type Activities - This activity includes the water, electric and sanitary sewer systems, which are financed primarily by user charges.

REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The FFS provide detailed information about individual, significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes (i.e. tax increment financing).

The Village has two fund types:

1. Governmental Funds - The Governmental Funds account of most of the Village's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Revolving Loan Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary Funds - Proprietary Funds account for the Village's enterprise funds. These funds report services for which the Village charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the SNA and the SOA. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements.

The enterprise fund includes the Electric, Water, and Sewer Funds, considered to be major funds of the Village. The Village is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a SNA, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the Village's total net assets at March 31, 2005.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS:			
Current and Other Assets	\$ 819,848	\$2,288,151	\$3,107,999
Capital assets net of accumulated depreciation	<u>737,806</u>	<u>5,649,545</u>	<u>6,387,351</u>
Total Assets	1,557,654	7,937,696	9,495,350
 LIABILITIES			
Current liabilities	36,215	224,839	261,054
Long-term liabilities	<u>46,529</u>	<u>2,780,991</u>	<u>2,827,520</u>
Total Liabilities	82,744	3,005,830	3,088,574
 NET ASSETS			
Invested in capital assets net of related debt	737,806	2,943,545	3,681,351
Restricted	523,917	146,673	670,590
Unrestricted	<u>213,187</u>	<u>1,841,648</u>	<u>2,054,835</u>
 Total Net Assets	<u><u>\$1,474,910</u></u>	<u><u>\$4,931,866</u></u>	<u><u>\$6,406,776</u></u>

The largest portion of the Village's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$2,055,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis provides the changes in the net assets for the Village's governmental and business-type activities:

	Governmental Activities	Business-type Activities	Total
REVENUES:			
Charges For Services	\$ 92,516	\$2,257,126	\$2,349,642
Operating Grants and contributions	59,835	10,250	70,085
Capital Grants and contributions	-	-	-
GENERAL REVENUES:			
Property Taxes	306,104		306,104
State shared revenue	354,580		354,580
Unrestricted investment earnings	887		887
Grants and contributions	42,247		42,247
Total Revenues	\$856,169	\$2,267,376	\$3,123,545
	Governmental Activities	Business-type Activities	Total
PROGRAM EXPENSES:			
General Government	\$ 224,616	\$	\$ 224,616
Public Works	320,328		320,328
Public Safety	323,473		323,473
Electric		1,746,302	1,746,302
Sewer		369,417	369,417
Water		231,502	231,502
Interest on long-term debt		128,808	128,808
Total expenses	868,417	2,476,029	3,344,446
DECREASE IN NET ASSETS	\$ 12,248	\$ 208,653	\$ 220,901

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

Net assets of the business – type activities decreased by approximately \$209,000 during the year. This resulted from ongoing expenses exceeding ongoing revenues in the three utility funds. All three utility funds still have adequate working capital amounts at March 31, 2005, however.

As the Village of Union City completed its year, its governmental funds reported a total fund balance of \$764,021, which is more than the \$737,572 total fund balances at March 31, 2004.

- The General Fund, the operating fund for the Village, ended FY04-05 with a \$240,104 balance compared to the prior year ending fund balance of \$235,522.
- Major Street Fund Balance increased by \$60,901. Included in the activity for the year was a transfer from the Local Street Fund of \$50,000 which provided additional funds for certain road projects.
- Local Street Fund Balance increased decreased by \$37,098. Included in the activity for the year was a transfer out of the fund to the Major Street Fund of \$50,000 which provided additional funds for certain major street projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Electric, Sewer and Water Funds, which account for the operation and maintenance of the Village's electric, water and sewer systems, ended FY04-05 with a \$ 4,931,866 net asset balance compared to prior year ending net asset balance of \$5,140,519. Operating results were already explained in the funds analysis above.

BUDGETARY HIGHLIGHTS

During the year ended March 31, 2005, the Village amended the budget one (1) time. The amendment transferred funds from the Local Street Fund to the Major Street Fund to provide sufficient funds for the South Broadway Street Reconstruction Project during the summer of 2005 and the North Broadway Street repaving project scheduled for the summer of 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings and improvements, equipment, electric systems, water systems, sewer systems, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$737,806 (net of accumulated depreciation) at March 31, 2005. Capital assets for business-type activities totaled \$5,649,545 (net of accumulated depreciation) at March 31, 2005. See the notes to the financial statements for more information about the Village's capital assets. The major capital outlays for governmental activities during the year included the purchase of fire breathing apparatus. For business-type activities, the Village purchased a new dump truck.

LONG-TERM DEBT

At year end the Village had \$2,706,000 in outstanding revenue bonds. The Village reduced its debt through scheduled installment payments of \$65,000 during the year ended March 31, 2005. Additional information on the Village's long-term debt can be found in Note II-Gin the accompanying financial statements.

ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the Village's annual budget. One important factor affecting the Village's budget is the State of Michigan's fiscal health because a significant source of revenue for the Village's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the Village has seen a major reduction in state shared revenues.

By comparison, the Village received state shared revenues in the amount of approximately \$234,000 in fiscal year ended March 31, 2004, \$214,000 in fiscal year ended March 31, 2005 and it is projected that the Village will receive less than \$208,000 in fiscal year ended March 31, 2006.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information please contact the Village of Union City, 208 N. Broadway Street, Union City, MI 49094.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Village of Union City
Statement of Net Assets
March 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 729,579	\$ 1,048,068	\$ 1,777,647
Receivables, net	74,964	534,802	609,766
Internal balances	2,269	(2,269)	-
Inventory	13,036	166,658	179,694
Land investment	-	38,247	38,247
Investment in joint venture	-	502,645	502,645
Capital assets not being depreciated	16,402	117,696	134,098
Capital assets being depreciated, net	721,404	5,531,849	6,253,253
 Total assets	 1,557,654	 7,937,696	 9,495,350
Liabilities			
Accounts payable and accrued expenses	23,723	210,993	234,716
Accrued wages	12,492	13,846	26,338
Long-term liabilities:			
Due within one year	46,529	93,603	140,132
Due in more than one year	-	2,687,388	2,687,388
 Total liabilities	 82,744	 3,005,830	 3,088,574
Net assets			
Invested in capital assets, net of related debt	737,806	2,943,545	3,681,351
Restricted for special purposes	523,917	406,501	930,418
Unrestricted	213,187	1,581,820	1,795,007
 Total net assets	 \$ 1,474,910	 \$ 4,931,866	 \$ 6,406,776

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Activities
For the Year Ended March 31, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 224,616	\$ 31,668	\$ -	\$ (192,948)
Public works	320,328	57,678	5,251	(257,399)
Public safety	323,473	3,170	54,584	(265,719)
Total governmental activities	<u>868,417</u>	<u>92,516</u>	<u>59,835</u>	<u>(716,066)</u>
Business-type activities:				
Electric	1,746,302	1,639,097	98	(107,107)
Sewer	474,229	341,185	5,577	(127,467)
Water	255,498	276,844	4,575	25,921
Total business-type activities	<u>2,476,029</u>	<u>2,257,126</u>	<u>10,250</u>	<u>(208,653)</u>
 Total primary government	 <u><u>\$ 3,344,446</u></u>	 <u><u>\$ 2,349,642</u></u>	 <u><u>\$ 70,085</u></u>	 <u><u>\$ (924,719)</u></u>

continued...

Village of Union City
Statement of Activities (Concluded)
For the Year Ended March 31, 2005

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (716,066)	\$ (208,653)	\$ (924,719)
General revenues:			
Property taxes	306,104	-	306,104
State shared revenue	354,580	-	354,580
Grants and contributions not restricted to particular programs	42,247	-	42,247
Unrestricted investment earnings	887	-	887
Total general revenues	703,818	-	703,818
Change in net assets	(12,248)	(208,653)	(220,901)
Net assets, beginning of year, as restated	1,487,158	5,140,519	6,627,677
Net assets, end of year	<u>\$ 1,474,910</u>	<u>\$ 4,931,866</u>	<u>\$ 6,406,776</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Village of Union City
Balance Sheet
Governmental Funds
March 31, 2005**

	<u>Major funds</u>			<u>Nonmajor Fund</u>	
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Revolving Loan</u>	<u>Total</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 123,892	\$ 145,609	\$ 239,452	\$ 36,696	\$ 545,649
Accounts receivable	3,336	-	1,363	-	4,699
Special assessments receivable	19,612	-	-	-	19,612
Inventory	-	6,518	6,518	-	13,036
Due from other governments	26,229	17,643	6,781	-	50,653
Due from other funds	111,290	53,074	23,686	28,149	216,199
<u>TOTAL ASSETS</u>	\$ 284,359	\$ 222,844	\$ 277,800	\$ 64,845	\$ 849,848
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 13,842	\$ 5,052	\$ 4,829	\$ -	\$ 23,723
Salaries payable	10,801	1,201	490	-	12,492
Deferred revenue	19,612	-	-	-	19,612
Due to other funds	-	-	30,000	-	30,000
Total liabilities	44,255	6,253	35,319	-	85,827
Fund balances					
Unreserved - undesignated	240,104	216,591	242,481	-	699,176
Unreserved, reported in nonmajor special revenue fund	-	-	-	64,845	64,845
Total fund balances	240,104	216,591	242,481	64,845	764,021
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 284,359	\$ 222,844	\$ 277,800	\$ 64,845	\$ 849,848

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2005

Fund balances - total governmental funds	\$ 764,021
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,704,314
Deduct: accumulated depreciation	(966,508)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance

Add: deferred special assessment receivables	19,612
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(46,529)</u>
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Net assets of governmental activities	<u><u>\$ 1,474,910</u></u>
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2005

	Major funds			Nonmajor Fund	
	General	Major Streets	Local Streets	Revolving Loan	Total
Revenue					
Taxes	\$ 230,053	\$ -	\$ 83,639	\$ -	\$ 313,692
Licenses and permits	712	-	-	-	712
Intergovernmental	268,513	101,650	39,001	-	409,164
Charges for services	28,956	-	-	-	28,956
Fines and forfeitures	3,170	-	-	-	3,170
Interest and rents	30,713	1,589	3,199	464	35,965
Other revenue	66,194	2,952	2,952	-	72,098
Total revenue	628,311	106,191	128,791	464	863,757
Expenditures					
General government	233,293	-	-	-	233,293
Public safety	338,591	-	-	-	338,591
Public works	54,245	95,290	115,889	-	265,424
Total expenditures	626,129	95,290	115,889	-	837,308
Revenue over expenditures	2,182	10,901	12,902	464	26,449
Other financing sources (uses)					
Transfer in	2,400	50,000	-	-	52,400
Transfer (out)	-	-	(50,000)	(2,400)	(52,400)
Total other financing sources (uses)	2,400	50,000	(50,000)	(2,400)	-
Net change in fund balances	4,582	60,901	(37,098)	(1,936)	26,449
Fund balances, beginning of year, as restated	235,522	155,690	279,579	66,781	737,572
Fund balances, end of year	\$ 240,104	\$ 216,591	\$ 242,481	\$ 64,845	\$ 764,021

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2005

Net change in fund balances - total governmental funds	\$ 26,449
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	59,586
Deduct: depreciation expense	(84,295)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Subtract: payments received on long-term receivables	(7,588)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(6,400)
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Change in net assets of governmental activities	\$ (12,248)
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended March 31, 2005

	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue			
Taxes:			
Property taxes - general	\$ 200,000	\$ 204,898	\$ 4,898
Assessments- sidewalks	15,000	25,155	10,155
Total taxes	215,000	230,053	15,053
Licenses and permits	600	712	112
Intergovernmental:			
Grant revenue	-	54,584	54,584
State revenue sharing	210,000	213,929	3,929
Total intergovernmental	210,000	268,513	58,513
Charges for services - fire	29,100	28,956	(144)
Fines and forfeitures	-	3,170	3,170
Interest and rents:			
Interest earned	1,000	886	(114)
Rental income	500	12,224	11,724
Equipment rentals	15,000	17,603	2,603
Total interest and rentals	16,500	30,713	14,213
Other revenue	94,178	66,194	(27,984)
Total revenue	565,378	628,311	8,349

continued...

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended March 31, 2005

	Original/ Amended Budget	Actual	Over (Under) Budget
Expenditures			
General government:			
Administration	\$ 158,273	\$ 163,560	\$ 5,287
Treasurer	8,250	8,235	(15)
Village Council	5,000	4,005	(995)
Clerk	48,263	42,721	(5,542)
Nondepartmental	17,200	14,442	(2,758)
Other	2,000	330	(1,670)
Total general government	238,986	233,293	(5,693)
Public safety			
Police	314,650	242,948	(71,702)
Fire	66,200	95,643	29,443
Total public safety	380,850	338,591	(42,259)
Public works			
Streets	38,400	54,245	15,845
Total expenditures	658,236	626,129	(32,107)
Revenue over (under) expenditures	(92,858)	2,182	95,040
Other financing sources (uses)			
Transfers in	38,633	2,400	(36,233)
Net change in fund balance	(54,225)	4,582	58,807
Fund balance, beginning of year as restated	235,522	235,522	-
Fund balance, end of year	\$ 181,297	\$ 240,104	\$ 58,807

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenue				
Intergovernmental	\$ 89,000	\$ 89,000	\$ 101,650	\$ 12,650
Interest	1,500	1,500	1,589	89
Other	500	500	2,952	2,452
Total revenue	91,000	91,000	106,191	
Expenditures				
Public works	159,065	159,065	95,290	(63,775)
Revenue over (under) expenditures	(68,065)	(68,065)	10,901	(63,775)
Other financing sources (uses)				
Transfers in	-	50,000	50,000	-
Net change in fund balance	(68,065)	(18,065)	60,901	78,966
Fund balance, beginning of year as restated	155,690	155,690	155,690	-
Fund balance, end of year	\$ 87,625	\$ 137,625	\$ 216,591	\$ 78,966

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Local Streets Special Revenue Fund
For the Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenue				
Property taxes	\$ 82,000	\$ 82,000	\$ 83,639	\$ 1,639
Intergovernmental	34,000	34,000	39,001	5,001
Interest	3,000	3,000	3,199	199
Other	500	500	2,952	2,452
Total revenue	119,500	119,500	128,791	9,291
Expenditures				
Public works	169,215	169,215	115,889	53,326
Revenue over (under) expenditures	(49,715)	(49,715)	12,902	(44,035)
Other financing sources (uses)				
Transfer out	-	(50,000)	(50,000)	-
Net change in fund balance	(49,715)	(99,715)	(37,098)	62,617
Fund balance, beginning of year as restated	279,579	279,579	279,579	-
Fund balance, end of year	\$ 229,864	\$ 179,864	\$ 242,481	\$ 62,617

The accompanying notes are an integral part of these financial statements.

**Village of Union City
Statement of Net Assets
Proprietary Funds
March 31, 2005**

	Enterprise Funds - Business-type activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Assets					
Current assets:					
Cash and cash equivalents	\$ 277,483	\$ 178,801	\$ 185,283	\$ 641,567	\$ 183,930
Accounts receivable	178,925	39,542	25,760	244,227	-
Notes receivable	18,042	272,533	-	290,575	-
Due from other funds	76,339	5,697	7,016	89,052	-
Inventory	132,165	4,017	30,476	166,658	-
Total current assets	682,954	500,590	248,535	1,432,079	183,930
Non-current assets:					
Restricted cash and cash equivalents	-	259,828	146,673	406,501	-
Capital assets, net	392,839	4,482,148	774,558	5,649,545	-
Land investment	38,247	-	-	38,247	-
Investment in M.S.C.P.A.	502,645	-	-	502,645	-
Total non-current assets	933,731	4,741,976	921,231	6,596,938	-
Total assets	1,616,685	5,242,566	1,169,766	8,029,017	183,930
Liabilities					
Current liabilities:					
Accounts payable	113,171	11,184	3,701	128,056	-
Accrued wages	9,489	2,346	2,011	13,846	-
Due to other funds	74,652	10,369	6,300	91,321	183,930
Interest payable	-	9,962	2,210	12,172	-
Customer deposits	59,352	-	11,413	70,765	-
Compensated absences payable	15,000	4,301	4,302	23,603	-
Current portion of long-term debt	-	40,000	30,000	70,000	-
Total current liabilities	271,664	78,162	59,937	409,763	183,930
Long-term liabilities:					
Compensated absences payable	30,773	10,308	10,307	51,388	-
Revenue bonds payable	-	2,271,000	365,000	2,636,000	-
Total liabilities	302,437	2,359,470	435,244	3,097,151	183,930
Net assets					
Invested in capital assets, net of related debt	392,839	2,171,148	379,558	2,943,545	-
Restricted	-	259,828	146,673	406,501	-
Unrestricted	921,409	452,120	208,291	1,581,820	-
Total net assets	\$ 1,314,248	\$ 2,883,096	\$ 734,522	\$ 4,931,866	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2005

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Operating revenue					
Charges for services	\$ 1,634,027	\$ 341,185	\$ 276,844	\$ 2,252,056	\$ -
Operating expenses					
Operations	1,725,287	217,037	203,733	2,146,057	-
Depreciation	21,015	152,380	27,769	201,164	-
Total operating expenses	1,746,302	369,417	231,502	2,347,221	-
Operating income (loss)	(112,275)	(28,232)	45,342	(95,165)	-
Non-operating revenue (expense)					
Transfer out	-	-	(6,732)	(6,732)	-
Transfer in	6,732	-	-	6,732	-
Interest revenue	5,168	4,227	3,225	12,620	-
Other non-operating revenue	-	1,350	1,350	2,700	-
Interest expense	-	(104,812)	(23,996)	(128,808)	-
Total non-operating revenue (expense)	11,900	(99,235)	(26,153)	(113,488)	-
Change in net assets	(100,375)	(127,467)	19,189	(208,653)	-
Net assets, beginning of year, as restated	1,414,623	3,010,563	715,333	5,140,519	-
Net assets, end of year	\$ 1,314,248	\$ 2,883,096	\$ 734,522	\$ 4,931,866	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2005

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Cash flows from operating activities					
Cash received from customers	\$ 1,625,634	\$ 338,626	\$ 260,862	\$ 2,225,122	\$ -
Cash payments to suppliers for goods and services	(1,426,928)	(137,372)	(116,186)	(1,680,486)	(8,658)
Cash payments to employees for services	(208,732)	(56,412)	(68,325)	(333,469)	56,047
Net cash provided (used) by operating activities	(10,026)	144,842	76,351	211,167	47,389
Cash flows from non-capital financing activities					
Non-operating revenue	-	1,350	1,350	2,700	-
Transfer in	6,732	-	-	6,732	-
Transfer out	-	-	(6,732)	(6,732)	-
Net cash used provided (used) by non-capital financing activities	6,732	-	(6,732)	2,700	-
Cash flows capital and related financing activities					
Proceed from land sale	23,628	-	-	23,628	-
Purchase of capital assets	(3,115)	(3,115)	(39,928)	(46,158)	-
Principal paid on bonds	-	(40,000)	(25,000)	(65,000)	-
Interest paid on bonds	-	(104,812)	(23,996)	(128,808)	-
Net cash provided (used) by capital and related financing activities	20,513	(147,927)	(88,924)	(216,338)	-
Cash flows from investing activities					
Interest received on investments	5,168	4,227	3,225	12,620	-
Net increase (decrease) in cash and cash equivalents	22,387	1,142	(16,080)	7,449	47,389
Cash and cash equivalents, beginning of year	255,096	437,487	348,036	1,040,619	136,541
Cash and cash equivalents, end of year	\$ 277,483	\$ 438,629	\$ 331,956	\$ 1,048,068	\$ 183,930
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 277,483	\$ 178,801	\$ 185,283	\$ 641,567	\$ 183,930
Restricted cash equivalents	-	259,828	146,673	406,501	-
	\$ 277,483	\$ 438,629	\$ 331,956	\$ 1,048,068	\$ 183,930

continued...

Village of Union City
Statement of Cash Flows
Enterprise Funds (Concluded)
For the Year Ended March 31, 2005

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (112,275)	\$ (28,232)	\$ 45,342	\$ (95,165)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	21,015	152,380	27,769	201,164	-
Changes in assets and liabilities:					
Accounts receivable	(8,393)	(2,559)	(15,982)	(26,934)	-
Inventory	(14,638)	91	346	(14,201)	-
Due from other funds	(76,339)	(5,697)	(7,016)	(89,052)	-
Accrued liabilities	91,182	17,039	18,142	126,363	-
Due to other funds	74,652	10,369	6,300	91,321	47,389
Compensated absences payable	14,770	1,451	1,450	17,671	-
Net cash provided (used) by operating activities	\$ (10,026)	\$ 144,842	\$ 76,351	\$ 211,167	\$ 47,389

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Union City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

In accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations may be considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibilities and financial accountability.

In this regard, there are no other governmental organizations associated with the Village subject to the above criteria nor are there any other governmental organizations in existence.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for major street and highway purposes.

The *local streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for local street and highway purposes.

The government reports the following major proprietary funds:

The *electric fund* accounts for the activities of the government's electric generation and distribution system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including trust or major capital projects. The *revolving loan fund* constitutes the sole nonmajor special revenue fund of the Village.

Internal service fund. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes the compensated absences fund of the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewage function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewage enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory consists of expendable supplies held for consumption.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the Enterprise Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Vehicles	5-25
Equipment	3-10
Infrastructure	20
Systems and plant	20-50

7. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

8. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those contained in the formal budget approved by the Village Board. Budgetary control is exercised at the functional level. Each budget amendment must have Council approval.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Excess of expenditures over appropriations

Excess of expenditures over appropriations in the general and major special revenue funds are reported in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

These over expenditures were funded through the use of fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year end, the carrying amount of deposits for the government was \$1,777,647. The bank balance of these deposits was \$1,546,645. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$1,446,645 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of cash as shown on the Statement of Net Assets to deposits as classified for note disclosure purposes is as follows:

Statement of Net Assets:

Cash and cash equivalents – Governmental activities	\$ 729,579
Cash and cash equivalents – Business-type activities	<u>1,048,068</u>
	<u>\$ 1,777,647</u>

All deposits consist of checking, savings and certificates of deposit accounts.

B. Receivables

Receivables in the governmental activities are 67 percent due from other governments, 26 percent special assessments receivable, and 7 percent other receivables. Business-type activities receivables are 46 percent of amounts due from customers and 54 percent note receivables. Special assessments receivable (governmental activities) in the amount of \$12,024 are not expected to be collected within one year of March 31, 2005.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended March 31, 2005 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 16,402	\$ -	\$ -	\$ 16,402
Capital assets, being depreciated:				
Buildings	135,200	-	-	135,200
Equipment	25,000	59,586	-	84,586
Vehicles	371,500	-	-	371,500
Infrastructure	1,096,626	-	-	1,096,626
Total capital assets being depreciated	1,628,326	59,586	-	1,687,912
Less accumulated depreciation for:				
Buildings	(36,150)	(3,905)	-	(40,055)
Equipment	(23,000)	(6,959)	-	(29,959)
Vehicles	(266,500)	(18,600)	-	(285,100)
Infrastructure	(556,563)	(54,831)	-	(611,394)
Total accumulated depreciation	(882,213)	(84,295)	-	(966,508)
Total capital assets being depreciated, net	746,113	(24,709)	-	721,404
Capital assets, net	\$ 762,515	\$ (24,709)	\$ -	\$ 737,806
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 117,696	\$ -	\$ -	\$ 117,696
Capital assets, being depreciated:				
Systems and plant	7,383,775	9,345	-	7,393,120
Vehicles	139,925	36,813	(13,350)	163,388
Total capital assets being depreciated	7,523,700	46,158	(13,350)	7,556,508
Less accumulated depreciation for:				
Systems, plant and vehicles	(1,836,845)	(201,164)	13,350	(2,024,659)
Total capital assets being depreciated, net	5,686,855	(155,006)	-	5,531,849
Capital assets, net	\$ 5,804,551	\$ (155,006)	\$ -	\$ 5,649,545

Depreciation expense was charged to functions/programs of the Village as follows

Governmental activities:

General government	\$ 3,065
Public safety	24,934
Public works, including infrastructure assets	56,296
Total depreciation expense, governmental activities	\$ 84,295

Business-type activities:

Electric	\$ 21,015
Sewer	152,380
Water	27,769
Total depreciation expense, business-type activities	\$ 201,164

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Payables

Payables in the governmental activities are 100 percent vendors. Business-type activities payables are 61 percent vendors, 6 percent accrued interest and 33 percent customer deposits.

E. Interfund receivables, payables and transfers

The Village reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

<u>Receivable Fund</u>	<u>Local Street</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Internal Service</u>	<u>Total</u>
General	\$ -	\$ 42,290	\$ 10,369	\$ 6,300	\$ 52,331	\$ 111,290
Major Street	30,000	-	-	-	23,074	53,074
Local Street	-	-	-	-	23,686	23,686
Revolving Loan	-	28,149	-	-	-	28,149
Electric	-	-	-	-	76,339	76,339
Sewer	-	945	-	-	4,752	5,697
Water	-	3,268	-	-	3,748	7,016
	<u>\$ 30,000</u>	<u>\$ 74,652</u>	<u>\$ 10,369</u>	<u>\$ 6,300</u>	<u>\$ 183,930</u>	<u>\$ 305,251</u>

For the year ended March 31, 2005, interfund transfers consisted of \$2,400 from the Revolving fund to the General Fund, and \$50,000 from the Local Street Fund to the Major Street Fund, which were approved by the Village Board. There was also a transfer between the Water and Electric funds of \$6,732.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

F. Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

The Village of Union City is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2004, audited by other auditors whose report dated August 12, 2004, expressed an unqualified opinion for those statements.

The Village has entered into a Power Sales Contract with M.S.C.P.A. which requires the Village to purchase all of its bulk power supply from M.S.C.P.A and to pay its share of the agency's operating and debt service costs. The Village has also entered into an agreement for services to be provided by M.S.C.P.A. in respect to substation facilities and an agreement which requires the Village to sell to the agency power generated by its facilities in certain instances.

Summary information of the Village's investment in the M.S.C.P.A. as of and for the year ended June 30, 2004, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City Portion 4.0%</u>
Total Assets	\$ 85,109,361	\$ 3,404,375
Total Liabilities	<u>(72,543,249)</u>	<u>(2,901,730)</u>
Net Assets	<u>\$ 12,566,112</u>	<u>\$ 502,645</u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

	<u>Total</u> <u>M.S.C.P.A.</u>	<u>Village</u> <u>of</u> <u>Union City</u> <u>Portion 4.0%</u>
Operating revenues	\$ 36,757,645	\$ 1,470,306
Operating expenses	<u>(28,941,742)</u>	<u>(1,157,670)</u>
Operating income	7,815,903	312,636
Other income and (expenses)	(7,752,964)	(310,118)
Capital contribution and extraordinary item	<u>-</u>	<u>-</u>
Changes in net assets	62,939	2,518
Net Assets at Beginning of Year (as restated)	<u>12,503,173</u>	<u>500,127</u>
Net Assets at End of Year	<u><u>\$ 12,566,112</u></u>	<u><u>\$ 502,645</u></u>

G. Long-term debt

Revenue bonds. The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Due in</u> <u>Fiscal</u> <u>Year End</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
1995 Water	2014	4.75%-6.10%	\$ 395,000
1995 Sewer	2033	4.5%	<u>2,311,000</u>
			<u><u>\$ 2,706,000</u></u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 30,000	\$ 22,468	\$ 40,000	\$ 103,658	\$ 70,000	\$ 126,126
2007	30,000	20,765	45,000	101,183	75,000	121,948
2008	30,000	19,048	45,000	100,620	75,000	119,668
2009	35,000	17,171	45,000	99,270	80,000	116,441
2010	40,000	14,985	50,000	96,345	90,000	111,330
2011-2015	230,000	36,563	275,000	445,590	505,000	482,153
2016-2020	-	-	345,000	364,140	345,000	364,140
2021-2025	-	-	420,000	277,000	420,000	277,000
2026-2030	-	-	535,000	159,000	535,000	159,000
2031-2033	-	-	511,000	37,000	511,000	37,000
	<u>\$ 395,000</u>	<u>\$ 131,000</u>	<u>\$ 2,311,000</u>	<u>\$ 1,783,806</u>	<u>\$ 2,706,000</u>	<u>\$ 1,914,806</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended March 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities					
Compensated absences	<u>\$ 40,129</u>	<u>\$ 6,400</u>	<u>\$ -</u>	<u>\$ 46,529</u>	<u>\$ 46,529</u>
Business-type activities					
Sewer Revenue bonds	\$ 2,351,000	\$ -	\$ (40,000)	\$ 2,311,000	\$ 40,000
Water Revenue Bonds	420,000	-	(25,000)	395,000	30,000
Compensated absences	<u>57,320</u>	<u>17,671</u>	<u>-</u>	<u>74,991</u>	<u>23,603</u>
	<u>\$ 2,828,320</u>	<u>\$ 17,671</u>	<u>\$ (65,000)</u>	<u>\$ 2,780,991</u>	<u>\$ 93,603</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Electric, Sewer and Water Funds, which are individual funds that account entirely for the government's electric services, water distribution and treatment and sewage disposal and treatment activities, are segments and are reported as a major funds in the fund financial statements, segment disclosures herein are not required.

I. Pension plan

The Village maintains a defined contribution pension plan called the Village of Union City Public Employees' Retirement Trust, which is administered by two public retirement plan administrators for substantially all employees. The employees must have attained 21 years of age and completed one year of service to become a participant in the plan. An employee is fully vested after six years of service. No employee contributions are required or can be made to the plan. The Village Council is authorized to amend benefit provisions and contribution requirements.

The Village is required to make annual contributions to the Village Employee's Pension Trust based on the percentage within the employee group's contracts.

Contributions made to the plan for the year ended March 31, 2005, amounted to \$37,823. The following is a schedule of the contributions by fund:

General Fund	\$ 11,954
Major Street Fund	2,455
Local Street Fund	2,455
Electric Fund	10,545
Sewer Fund	5,207
Water Fund	<u>5,207</u>
Total	<u>\$ 37,823</u>

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2005, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Property taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding December 31, the lien date. Real and personal property in the Village for the 2004 levy had a taxable value of \$19,876,400 representing approximately 50 percent of the estimated true cash value, as assessed by the County. The Village's general operating tax rate for fiscal year 2004-05 was 10.2662 mills and 4.0971 mills for the Village Roads.

C. Restatements

Fund Financial Statements.

The beginning net assets of the Electric, Sewer and Water funds were derived by aggregating the previously reported retained earnings and contributed capital in the amounts of \$2,899,215 and \$2,193,265, respectively.

Additionally, balances previously shown in a fiduciary fund have been reclassified to enterprise and governmental funds, and the enterprise funds have been restated to properly reflect compensated absences amounts payable. The following schedule summarizes these restatements:

Business-type activities

	Electric Fund	Sewer Fund	Water Fund
Beginning balance, as previously reported	\$ 1,370,920	\$ 3,008,983	\$ 712,577
Increase to properly recognize balances in fiduciary account	74,706	14,738	15,915
Decrease to properly recognize compensated absences payable	(31,003)	(13,158)	(13,159)
Beginning net assets, as restated	\$ 1,414,623	\$ 3,010,563	\$ 715,333

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Governmental activities

	General Fund	Major Street Fund	Local Street Fund
Beginning balance, as previously reported	\$ 220,181	\$ 150,221	\$ 274,483
Increase to properly recognize balances in fiduciary account	15,341	5,469	5,096
Beginning fund balances, as restated	<u>\$ 235,522</u>	<u>\$ 155,690</u>	<u>\$ 279,579</u>

In addition, as of and for the year ended March 31, 2005, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village is required to implement the new requirements for the fiscal year ending March 31, 2005.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of governmental funds as of 3/31/04	
as restated	\$ 737,572
Add governmental capital assets, including	
infrastructure cost, as of 3/31/04	1,644,728
Deduct accumulated depreciation on governmental	
capital assets, including infrastructure	
as of 3/31/04	(882,213)
Add "unavailable" deferred revenue as of 3/31/04	27,200
Deduct compensated absences payable as of 3/31/04	<u>(40,129)</u>
Governmental net assets, restated, as of 3/31/04	<u><u>\$ 1,487,158</u></u>

D. Commitments and contingencies

The Village participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits. Accordingly, the Village's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



July 8, 2005

Village of Union City
208 North Broadway
Union City, Michigan

We have audited the financial statements of the Village of Union City for the year ended March 31, 2005, and have issued our report thereon dated July 8, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Union City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Union City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village of Union City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Union City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Union City, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Union City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Union City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is written in a cursive style.

VILLAGE OF UNION CITY, MICHIGAN

Accounting Memorandum

For the Year Ended March 31, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated July 8, 2005, on the financial statements of The Village of Union City.

Internal Control Review

As with other governments the size of the Village, segregation of duties is often difficult to implement. However, there are methods of segregating duties sufficiently to enhance the internal controls to an acceptable level. We noted that the Office Manager is responsible for general ledger maintenance, deposits of Village receipts to the bank, and bank reconciliation preparation.

We recommend that another individual review the bank reconciliations for completeness in order to enhance the internal controls in this area. We suggest that the Village Manager appoint an appropriate individual to perform this reviewing function.

GASB 34 Implementation

The basic financial statements for the year ended March 31, 2005 conform to the new reporting requirement under Governmental Accounting Standards Board Statement #34, which was an overwhelming overhaul in the way governmental basic financial statements are presented. For the Village, similar to other first-time implementers, this implementation process was an important process, which took a significant amount of time of the staffs of the Village and our independent audit firm to reconfigure the funds and schedules to conform to the new government-wide format, including the presentation of capital assets net of accumulated depreciation.

The new reporting format reflects the Village on a government-wide basis for the governmental activities. The basic financial statements on a government-wide basis reflect positive net assets of approximately \$1,475,000. The unrestricted portion of these net assets approximates \$213,000. Also, as pointed out in the MD&A section of the report, the financial statements reflect a summary of the Statement of Activities for the years ending March 31, 2005. We believe these statements will have more meaning when the user can compare the activity results with more than one year (a trend analysis) as we go into the future with this new format for financial reporting.

Deposits

The Electric and Water funds maintain deposit liability accounts in the general ledger to monitor the detail deposits listings maintained for each of the funds. These liability accounts in the general ledger should be reconciled to the detail amounts held at least on a quarterly basis to ensure that proper postings have been made. Also, the related cash accounts for these deposits exceed the liability account for deposits held by \$30,650 and \$6,228, respectively, for the Electric and Water funds. We understand that the cash deposit accounts may include deposits going back to the early 1900's, and many of these collections may have been from parties who are now deceased. The Village should determine a proper distribution of this apparent excess cash.